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SUBJECT: NIGERIA ECONOMIC UPDATE, NOVEMBER 2004

11. (U) Summary: The National Electric Power Authority (NEPA) generated significantly less power in November than normal due to poor planning, maintenance and repair issues. The World Bank recently estimated Nigeria loses \$496 million per year from power failures. The Nigeria-Sao Tome and Principe joint development authority is offering five deep offshore oil blocs for sale, ahead of Nigeria's sale of about 27 onshore and offshore blocs in early 2005. The GON's local content campaign got a boost as Schlumberger began working with indigenous firms to raise funds for local marginal field operations. Nigerian Telecommunications Limited (NITEL), the state-owned telecommunications company, owes GSM operators millions of dollars; operators have begun terminating services for some subscribers. End summary.

12. (U) This economic update includes:
-- A Power Sector Update
-- Offshore Oil Blocs Up for Licensing
-- Schlumberger Helps Indigenous Operators
-- State-owned NITEL Highly Indebted to GSM Companies

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Power Sector - Massive Loss of Generation; Electricity Tariffs May Rise; US Firm to Build State Plant

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13. (U) NEPA's power generation declined from 4,000MW to 2,566MW. This resulted in massive load shedding across the country. Much of Lagos has been without electricity the majority of the past several weeks. Businesses and residents, who have the wherewithal, have been forced to rely on auxiliary power sources throughout most of November. Those less fortunate have had to suffer through long periods without power and light. The World Bank recently estimated that Nigeria loses \$469 million a year from power failures.

14. (U) NEPA reported that three hydropower stations (Kainji, Shiroro and Jebba) are operating at about 55 percent capacity, due to low water levels. (Comment: With rainy season just now ending, if water levels are already a problem, this difficulty is only likely to escalate as Nigeria moves further into dry season. NEPA said it "used up" all the water, anticipating a "big flood," which never materialized. End Comment.) The Egbin thermal plant in Lagos is also operating below its 1,320MW, due to repair and maintenance work. (Comment: Technicians from Japan arrived about a week ago to work on the Lagos plant. End comment.) NEPA said it hopes to increase generation to at least 3,000MW early December. However, that would still be less than 50% of total installed capacity of 6,654MW and well short of the GON's target to increase installed capacity to 10,000MW by 2007. Press reported that NEPA plans to increase electricity tariffs from between 40% and 194% to achieve full cost recovery. The subsidization of NEPA and NEPA's resultant lack of popularity have been major impediments to NEPA's privatization and to attracting increased private investment to the struggling sector.

16. (U) Meanwhile, U.S. firm Black and Veatch announced plans to partner with an indigenous company and the Kwara State Government to build a gas-fired Independent Power Plant (IPP) worth \$275 million. About \$170m of the total sum is projected for constructing a gas pipeline to fuel the plant. In what may be a harbinger of things to come, the arrangement will exclude NEPA from the sale of electricity, and allow direct sale from the IPP to industry. The plant, which should be completed in 2006, has an estimated output of 105 megawatts. (Comment: GON plans to increase power generation from current 3,000MW to 10,000MW by 2005 appear unachievable, despite the number of ongoing IPP projects of various state governments, which are at different levels of completion. End comment.)

Oil: Blocs Up for Licensing

16. (U) The Nigeria-Sao Tome and Principe Joint Development Zone (JDZ), November 15, opened a call for bids for the award of five deep offshore oil blocs in the zone. Bidding in this second JDZ licensing round is expected to close December 15, with winners announced December 31.

17. (U) Edmund Daukoru, presidential adviser on petroleum and energy, said Nigeria would award 27 onshore and offshore oil blocs the first quarter of 2005. The GON is aiming for \$29 billion in petroleum revenue by 2007 and 40 billion barrels of oil reserves while producing 4.5 million barrels per day by 2010. Daukoru said the allocation and exploration of the blocs in 2005 would be critical in meeting these targets. (Comment: Stakeholders at a recent forum in Lagos opposed the GON's "rush" to license new blocs in 2005. They claimed the country has yet to fully benefit from previously licensed blocs, most of which are not yet operational. End comment.)

Schlumberger Helps Indigenous Operators of Marginal Fields

19. (U) Schlumberger announced plans to work with a consortium of four indigenous oil companies to develop four marginal fields, believed to have high prospects. (Note: In 2003, 31 indigenous companies were awarded licenses to operate 24 marginal fields - those oil fields which are no longer profitable for production for major oil firms, but which can present attractive opportunities for smaller companies. However, a large number of these companies had been unable to work these fields due to insufficient start-up capital. End note.)

State-owned NITEL Incur Enormous Debts to GSM Companies

11. (U) State-owned, Nigerian Telecommunications Limited (NITEL), and some private telecom operators (PTOs) owe major GSM operators (MTN, Vmobile and Glomobile) an estimated \$97.7 million. NITEL alone owes about \$82.7 million. As a result of these mounting debts, MTN has cut off subscribers on some PTO networks. (Comment: Industry watchers speculate the high level of indebtedness may cause some PTOs to liquidate or lead to consolidation within the telecom industry. This would further simplify the introduction of Unified Telecom Licenses in 2006, when some PTOs will have approval to provide mobile services. End comment.)

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